

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 174

SPONSOR: Education Committee and Senator Clary

SUBJECT: Lottery/Unclaimed Prize Money

DATE: April 9, 2004 REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|-----------------|------------------|------------|---------------------|
| 1. | <u>Woodruff</u> | <u>O'Farrell</u> | <u>ED</u> | <u>Favorable/CS</u> |
| 2. | <u>Keating</u> | <u>Johansen</u> | <u>FT</u> | <u>Favorable</u> |
| 3. | _____ | _____ | <u>AGG</u> | _____ |
| 4. | _____ | _____ | <u>AP</u> | _____ |
| 5. | _____ | _____ | _____ | _____ |
| 6. | _____ | _____ | _____ | _____ |

I. Summary:

The committee substitute directs that eighty percent of lottery unclaimed prize money shall be deposited in the Educational Enhancement Trust Fund. The remaining twenty percent of the unclaimed prize money shall be added to the pool from which future prizes are to be awarded or used for special prize promotions. Currently all unclaimed prize money is added to the pool from which future prizes are awarded or is used for special prize promotions.

The committee substitute allows the Department of the Lottery to pay variable percentages to the public in the form of prizes and to transfer variable percentages to the Educational Enhancement Trust Fund from both instant and on-line lottery tickets. The committee substitute deletes current language which requires a specific percentage be returned to the public as prizes and a specific percentage be deposited in the Educational Enhancement Trust Fund.

This committee substitute substantially amends sections 24.115, 24.121, and 1010.70 of the Florida Statutes.

II. Present Situation:

The Florida Lottery was established by the Legislature in 1987 (codified as Chapter 24, F.S.) in order to implement Article X, Section 15 of the State Constitution.

The state lottery offers two styles of games: on-line games, which entail picking numbers that are randomly drawn and include such games as Lotto, Mega Money, Fantasy 5, Play 4, and Cash 3; and instant games, which include various scratch-off tickets.

Section 24.115 (1) (f), F. S., states that holders of tickets shall have the right to claim prizes for 180 days after the drawing or the end of the lottery game or play in which the prize was won; except that with respect to any game in which the player may determine instantly if he or she has won or lost, such right shall exist for 60 days after the end of the lottery game. If a valid claim is not made for a prize within the applicable period, the prize shall constitute an unclaimed prize for purposes of subsection (2). Subsection 24.115 (2), F.S., provides that all unclaimed prize money shall be added to the pool from which future prizes are to be awarded or used for special prize promotions.

Section 24.121, F.S., identifies how the lottery revenue shall be allocated. As nearly as practical, at least 50 percent of the gross revenue from the sale of on-line lottery tickets and variable percentages, as determined by the department, of the gross revenue from the sale of instant lottery tickets shall be returned to the public in the form of prizes. At least 39 percent of the gross revenue from the sale of on-line lottery tickets and variable percentages, as determined by the department, of the gross revenue from the sale of instant lottery tickets shall be deposited in the Educational Enhancement Trust Fund (EETF) to be administered by the Department of Education. The funds remaining (about 11 percent) shall be used for payment of administrative expenses of the Department of the Lottery (department). At the end of each fiscal year any unencumbered funds in the Administrative Trust Fund must be transferred to the EETF. The funds in the EETF are required to be used to the benefit of public education in accordance with the provisions of Chapter 24.

Lottery revenues transferred to the EETF must be reserved as needed and pledged to the payment of debt service on bonds issued by the state on behalf of the Classrooms First Program, the School Capital Outlay Bond Program or the Class Size Reduction Lottery Revenue Bond Program¹.

Lottery revenue has been obligated to fund several major public education initiatives, such as the Bright Futures Scholarship Program. Funds in the EETF are allocated annually to the Bright Futures Scholarship Program prior to equitable distribution to public schools, community colleges, or state universities.

Currently, all unclaimed prize money must be added back into the pool for future prizes or used for special prize promotions. Historically, unclaimed prize money has primarily been used to increase the prize payout on instant tickets. Over the years, unclaimed prize money has also been used to guarantee holiday or other special jackpots for Lotto, operate the "Lotto Mobile" and other special promotions.

The method by which the department commits unclaimed prize money to the scratch-off prize pool in advance creates a liability that must be deducted before unclaimed prize money can be committed to the on-line prize pool. The department estimates the amount of prize money expected to go unclaimed and commits this amount in advance to the prize structure of scratch-off games. The estimated amount of unclaimed prize money generated by on-line games is revised monthly to reflect the actual amount generated. For scratch-off games, the revision is done when a game is closed.

¹ s. 1013.68, 1013.70, 1013.737, F.S

The department estimates that each year roughly \$35 - \$40 million in prize money goes unclaimed. In addition to increasing prize payouts, unclaimed prize money is also used to increase the jackpot pool for FLORIDA LOTTO and MEGA MONEY. In the event the cash available in the FLORIDA LOTTO or MEGA MONEY jackpot pool is insufficient to yield the announced estimated jackpot value, the department may add unclaimed prize money to the jackpot pool to render it sufficient to yield the announced jackpot. The department states this is most likely to occur when there is a sudden unexpected drop in interest rates.

The 2002 Legislature, through HB 2011, implemented similar changes to the state lottery's allocation of revenue. The legislation authorized the department to vary prize payout percentages for its instant games, therefore, eliminating the statutory requirement to transfer a set percentage of lottery revenues to the EETF. According to the department, this change significantly increased instant game sales by \$411 million and transfers to education by \$26.9 million in fiscal year 2002 – 03.

The department states that research has indicated that if the department were given the same flexibility to vary prize payout percentages on its on-line games, it would be able to increase revenue to education based on projected increase in on-line sales due to higher payouts.

During the 2003 Legislative Special Session E, HB 43E transferred \$30 million, a one time unclaimed Lotto Jackpot, into the EETF and appropriated these funds to community colleges and state universities to match private donations received under the provisions of s. 1011.85 and 1011.94, F.S.

Section 1010.70, Florida Statutes, requires that each fiscal year, at least 39 percent of the gross revenue from the sale of lottery tickets, variable percentages of the gross revenue from the sale of instant lottery tickets, as determined by the department, and other earned revenue, excluding application processing fees, shall be deposited in the Educational Enhancement Trust Fund.

III. Effect of Proposed Changes:

Section 1 amends s. 24.115(2), F.S., to distribute eighty percent of the unclaimed prize money to the Educational Enhancement Trust Fund. The remaining twenty percent shall be added to the pool from which future prizes are to be awarded or used for special prize promotions.

Section 2 amends s. 24.121(1) and (2), F.S., to allow the Department of the Lottery to pay variable percentages of revenue from the sale of both on-line and instant lottery tickets to the public in the form of prizes and variable percentages of revenue to the Educational Enhancement Trust Fund.

Section 3 amends s. 1010.70, F.S., providing that variable percentages of gross revenue from the sale of on-line and instant tickets will be deposited into the Educational Enhancement Trust Fund.

Section 4 provides an effective date of July 1, 2004.

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

The Revenue Estimating Conference estimated the fiscal impact of the committee substitute to be a positive indeterminate increase to the Educational Enhancement Trust Fund in fiscal year 2004-05. This positive indeterminate increase is a result of a gain in overall sales of on-line lottery tickets paired with the simultaneous slowdown of unclaimed prize monies because the Department of the Lottery expects to stop the practice of advance commitment of unclaimed prizes.

The 2005-06 fiscal impact is estimated to be a \$61.4 million recurring fiscal impact to the Educational Enhancement Trust Fund.

B. Private Sector Impact:

The committee substitute is expected to increase on-line ticket sales and increase payouts to on-line lottery game winners.

To the extent additional revenue goes to education, parents and students will benefit from the additional financial resources.

C. Government Sector Impact:

The committee substitute will give the Department of the Lottery the same flexibility to vary prize payout percentages for its on-line games as it does for its instant games, thereby, enabling the department to maximize revenues for education.

Increasing transfers to the EETF will enable programs for school bond funding to be sustained at the current level and may increase funding for such programs or other educational funding, thereby, creating a potential positive impact on local revenue.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
